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THE HOUSE DEMOCRATS' SECOND AMT PATCH  
TEMPORARY 'RELIEF,' LASTING DAMAGE

12 December 2007

Determined to swell the government's coffers, House Democrats are scheduled to bring up another alternative minimum tax [AMT] bill that needlessly raises taxes on the U.S. economy under the guise of AMT "relief." Rejecting the clean (without offsets) AMT patch passed last week by the Senate, the House Majority still demands the \$55.7-billion *tax increase* that the *unintended expansion* of the AMT would raise. The AMT Relief Act of 2007 (H.R. 4351) merely shifts this illegitimate tax hike to American businesses – and at the same time fails to extend important tax relief, such as the State and local tax deduction and the research and experimentation [R&E] tax credit.

This misguided legislation threatens to exacerbate the various challenges to the economy by dampening investment, job creation, and U.S. economic competitiveness. If enacted, this temporary "relief" would do permanent damage to the American economy.

- ***Raises Taxes at Exactly the Wrong Time for the Economy.*** Although U.S. economic fundamentals remain strong, the economy does face serious challenges, including a credit squeeze, a decline in housing prices, and the threat of inflation. This bill ignores economic reality and raises taxes on private investment funds and U.S. businesses by \$55.7 billion over the next 10 years. It also allows the expiration of numerous tax extenders, such as the State and local sales tax exemption and R&E tax credit – additional tax hikes at exactly the *wrong time* for the economy.
- ***Claims AMT 'Relief,' but Still Demands the Revenue.*** The bill purports to offer "relief" to 23 million middle-income earners who otherwise would be ensnared by the AMT – by extending protection from the tax through 2007, and raising the AMT exemption (to \$44,350 for single filers and \$66,250 for joint filers). But the measure *still demands the revenue increase* that the AMT expansion would raise – *even though it was never intended*. In other words, taxpayers still get to pay for Congress's mistake.
- ***Uses a Huge Timing-Shift Gimmick.*** Nearly half of the bill's "offsets" – conjured to meet the Democrats' pay-as-you-go [PAYGO] rule – come from a timing-shift gimmick. The bill claims to raise about \$26 billion over 10 years simply by delaying, from 2009 to 2017, the effective date of a previously enacted business tax rule. The provision is also bad tax policy. The scheduled tax change would allow U.S. companies to better allocate interest expenses from their worldwide business operations, easing the burden of double taxation that companies sometimes face on their international operations. Delaying this policy will further hamper U.S. economic competitiveness.

- ***Increases Taxpayer Uncertainty.*** While the House Majority delays taking up legislation that the Senate has passed and the White House supports, the 23 million additional taxpayers potentially subject to the AMT still do not know whether they will face an average tax hike of about \$2,000 for 2007. Many will be unsure of their financial situation over the holidays, and will have their tax refunds delayed; and that confusion will further hamper consumer confidence.
- ***Contains a Built-In Plan for Vastly Expanding Government.*** The tax hike in this bill is part of the Majority's artificially inflated revenue path, which also assumes automatic tax increases from the expiration of 2001 and 2003 relief. Under the overall Democratic plan, tax revenue rises to almost 21 percent of gross domestic product [GDP] by the end of the next decade, and nearly 24 percent by mid-century – compared with the historical range of about 18.3 percent of GDP (see chart). *Thus, Federal taxes would come to consume an unprecedented one-fourth of all U.S. economic resources.* This is the Majority's true fiscal plan – of which the AMT bill is a significant part.

